

Direct Funding Participant

Individual Segregation model in U.S. Market

Direct Funding Participant Model

Overview

The primary goal of the Direct Funding Participant (“DFP”) model is to provide an individual segregation offering in the U.S. and operational efficiencies

- The structure allows for firms or individuals to segregate and protect their collateral
- The DFP account will be separate and distinct from any of the Guarantor’s accounts
- Any potential DFP must:
 - Obtain a FCM guarantee
 - For exchange traded derivatives, be approved for the exchange membership(s) that is relevant to those exchanges;
 - Meet CME DFP requirements;
 - Establish a relationship with a CME approved settlement bank
- DFPs may only participate in the asset classes they have attained required memberships for and asset classes (i.e. Futures, IRS) in which their Guarantors are Clearing Members
- DFPs default does not result in utilization of the waterfall unless the DFP Guarantor also defaults

Direct Funding Participant: Protections & Benefits

The primary goal of the Direct Funding Participant (“DFP”) model is to provide an individual segregation offering in the U.S. and operational efficiencies

Protections

- Individual segregation eliminates fellow customer risk
- No risk of mutualized investment loss on posted collateral
- No DFP contribution to the mutualized portion of the waterfall

Benefits

- Greater custodial flexibility
- Direct return of interest earned on posted collateral
- Faster payment due to direct settlement

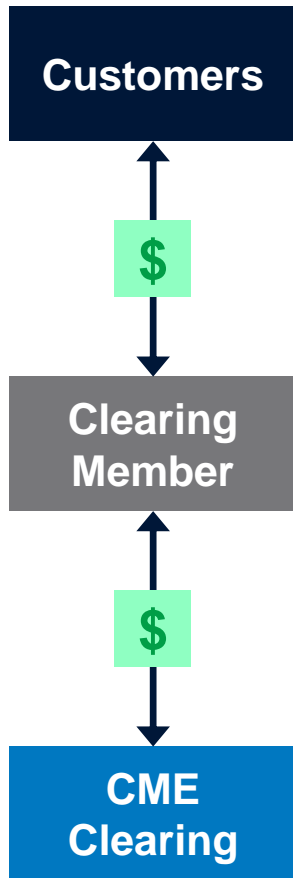
The structure may provide capital relief to the DFP Guarantor by removing client cash IM from the balance sheet and reducing CFTC capital requirements from 8% to 4% for DFP IM requirements

Comparison of DFP vs. Clearing Member Requirements

	Direct Funding Participant	Exchange Traded Clearing Member	IRS Clearing Member
Minimum Capital	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> \$5,000,000 	<ul style="list-style-type: none"> \$50,000,000
Membership ownership	<ul style="list-style-type: none"> CME: 1 membership to trade CME products CBOT: 1 membership to trade CBOT products 2 NYMEX 2 COMEX 	<ul style="list-style-type: none"> Must own Exchange Memberships (Exchange Traded, OTC option) 	
Risk management capabilities	<ul style="list-style-type: none"> Maintain appropriate staffed and skilled risk department Ability and expertise in monitoring P&L swings and margin changes Appropriate product expertise 	<ul style="list-style-type: none"> Maintain appropriate staffed and skilled risk management department Ability and expertise in monitoring P&L swings and margin changes Exhibit appropriate product expertise Credit approval process for approving new clients and establishing limits Ability to liquidate any and all positions the firm clears 	
Operational requirements	<ul style="list-style-type: none"> Maintain appropriate staffed and skilled operations functions Ability to meet required margin calls 	<ul style="list-style-type: none"> Maintain appropriate staffed and skilled operations functions Submit required financial statements and audited statements Offer the necessary back office services to clients Ability to meet required margin calls 	<ul style="list-style-type: none"> Maintain appropriate staffed and skilled operations functions Submit required financial statements and audited statements Offer the necessary back office services to clients Perform trade and position processing services for CME-cleared OTC Products Ability to meet required margin calls
Default Management	<ul style="list-style-type: none"> Not required 	<ul style="list-style-type: none"> Not required 	<ul style="list-style-type: none"> Ability to participate and construct a bid during the default management process
DFP Legal Agreements	<ul style="list-style-type: none"> Reimbursement Agreement (DFP to DFP Guarantor) 	N/A	

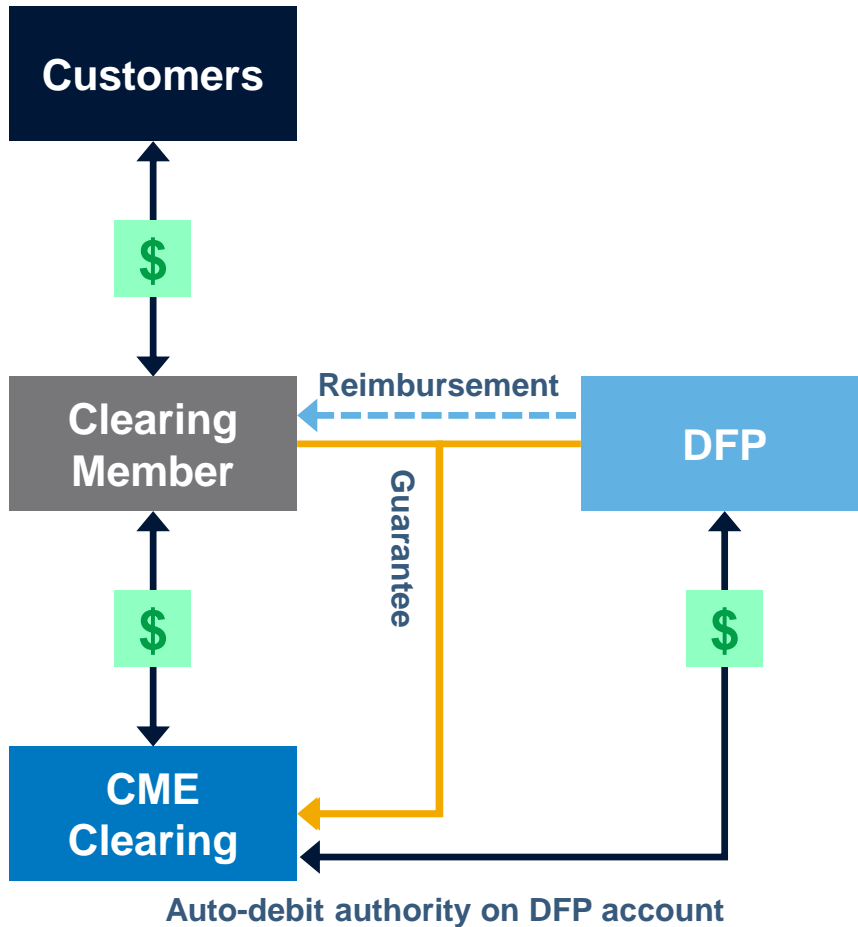
Note: DFPs are only required to purchase memberships for the DCMs on which they wish to trade

Traditional Clearing Relationship



- Customers access CME Clearing services through CME Clearing Members
- Clearing Members have legal agreement with customers to guarantee customer performance to CME
- All IM and VM flows go through Clearing Members to CME
- Customer funds must be held in segregated accounts
 - Futures: Customer Segregated 4d account
 - Swaps: Cleared Swaps Customer 4d(f) account (LSOC)

DFP Clearing Structure Overview



DFP Guarantor

- May only guarantee DFP trades in asset classes for which it maintains a clearing membership
- Assumes responsibility for DFP obligations to CME Clearing and accountable for any shortfalls
- In the event of a DFP default, may serve as CME's liquidation agent for the DFP portfolio

DFP & DFP Guarantor: Capital Requirement

- DFP: Must post the greater of (1) the margin top-up required due to the move to a two-day liquidation period or (2) 104% of margin that would be required without application of two-day
- Guarantor: Must hold 4% capital against the DFP's performance bond requirement

Direct Funding Participant

- DFP is a special Clearing Membership type that receives full guarantee of another non-DFP Clearing Member firm
- Must meet DFP requirements under CME rules and/or imposed by DFP Guarantor
- DFP pays and collects IM and VM with CME directly (FCM removed from payment flows)
- Must use CME approved settlement banks
- In the event of the DFP Guarantor's default, DFP performance bond is not subject to the risk of pro-rata distribution

Risk Managing DFPs

DFP Guarantors will be provided the tools and reporting to fully risk manage their DFPs

Reporting/ Tool	Frequency/ Ability	What report/tool provides	Customer	DFP
Drop Copy services	<ul style="list-style-type: none"> Real-time 	<ul style="list-style-type: none"> Messages routed in real time that provide CMFs trade order entry acknowledgements and trade executions of those they provide clearing services Specific identifiers will notify Guarantors which messages are a DFP's 	Yes	Yes
Other trade reporting	<ul style="list-style-type: none"> Real-time 	<ul style="list-style-type: none"> CME will provide real-time notifications of DFP give-up and block trading activity through normal clearing messaging infrastructure 	Yes	Yes
Initial Margin report	<ul style="list-style-type: none"> ITD, EOD 	<ul style="list-style-type: none"> Breakdown of margin requirements by currency and product 	Yes	Yes
Initial Margin Requirements	<ul style="list-style-type: none"> ITD, EOD 	<ul style="list-style-type: none"> Ability to require additional margin to be held at CME 	Yes	Yes
Variation Margin report	<ul style="list-style-type: none"> ITD, EOD 	<ul style="list-style-type: none"> Breakdown of variation by product type and currency 	Yes	Yes
Guaranty Fund reports	<ul style="list-style-type: none"> Monthly 	<ul style="list-style-type: none"> Reports Guaranty Fund requirement for the given period and change from prior period Will provide DFP specific reporting 	Yes	Yes
Trade Registers	<ul style="list-style-type: none"> ITD, EOD 	<ul style="list-style-type: none"> Verify trading activity and positions of accounts 	Yes	Yes
Asset Inventory Trial Balance	<ul style="list-style-type: none"> ITD, EOD 	<ul style="list-style-type: none"> Provides detailed breakdown of collateral deposited at CME 	Yes	Yes
Collateral management	<ul style="list-style-type: none"> Real-time 	<ul style="list-style-type: none"> Ability to control what collateral can be deposited to fulfill initial margin obligations 	Yes	Yes
Globex Credit Controls	<ul style="list-style-type: none"> Real-time 	<ul style="list-style-type: none"> Set and monitor margin based and position based limits for trades executed through Globex 	Yes	Yes
OTC Credit Controls	<ul style="list-style-type: none"> Real-time 	<ul style="list-style-type: none"> Set and monitor risk based limits 	Yes	Yes

Reports provided per clearing service, as applicable

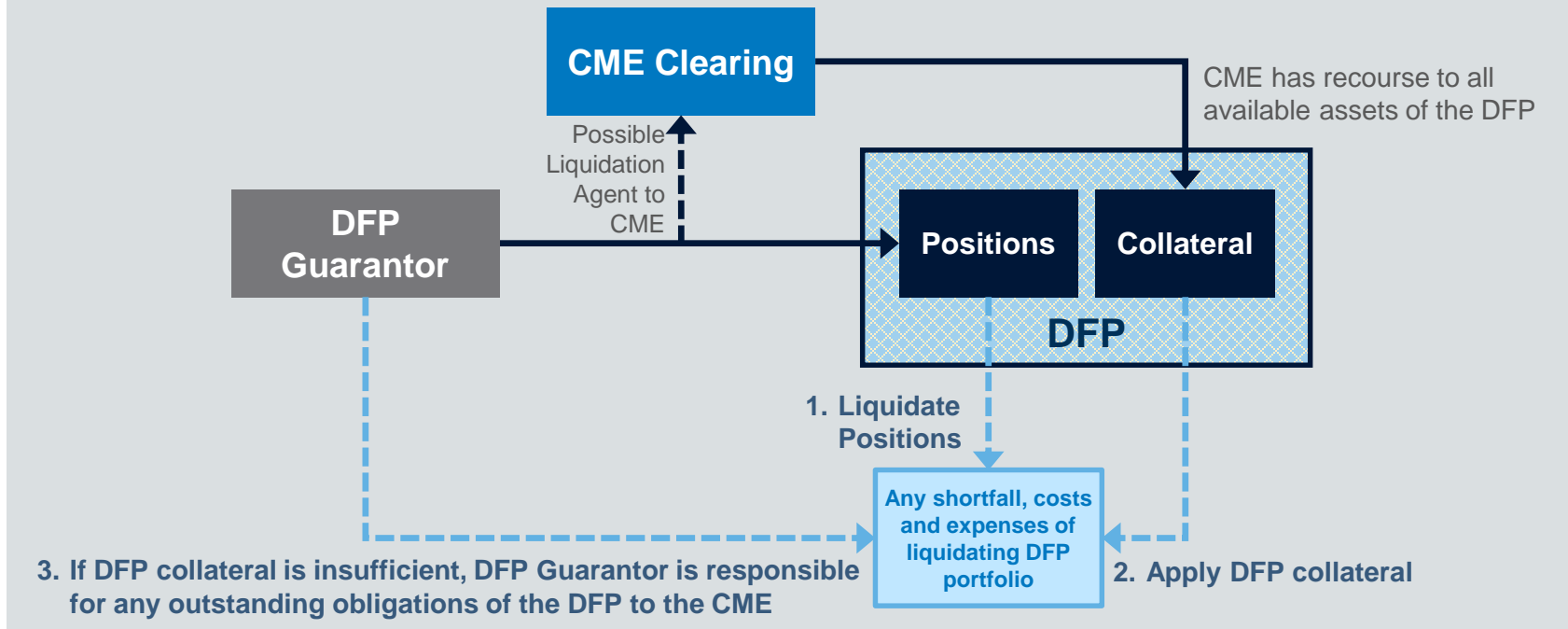
DFP Default Scenario

If a DFP defaults, CME has 2 options after ensuring the DFP shortfall is met

1. Confirm that failure is operational in nature and bring fully margined DFP into relevant FCM customer pool subject to CME approval

2. Allow DFP's positions/collateral to be liquidated

Scenario: DFP Defaults, DFP positions/collateral liquidated



- DFP default does not result in utilization of the waterfall unless the DFP Guarantor also defaults

DFP Guarantor Exit Scenario

Default or Suspension of the Guarantor

- If the DFP Guarantor defaults or is suspended the DFP may express one of the following preferences:
 1. Find a replacement DFP Guarantor;
 2. Change its clearing membership status in the Clearing House to that of a Clearing Member that is not a DFP, which status would be provisional pending subsequent approval by the Clearing House;
 3. Transfer its open positions to one or more Clearing Members in the customer origin; or
 4. Liquidate its open positions guaranteed by its DFP Guarantor
- The DFP has 24 hours to declare its intention to CME; if it is options 1, 2, or 3 they will need to have completed the arrangements by last settlement cycle of the first business day following the declaration

Withdrawal of the Guarantor

- A DFP Guarantor may request to withdraw from its status as a DFP Guarantor for one or more of its DFPs
- The withdrawal is effective upon the earlier of:
- The withdrawal is effective upon the earlier of:
 - (i) 30 business days after the date on which the notice of intent was submitted;
 - (ii) the date of Clearing House staff approval; or
 - (iii) the 1st Business Day following the date of the clearing cycle in which each DFP of the withdrawing Guarantor either (a) has liquidated or transferred all of its open positions, (b) finds a replacement guarantor that has funded any necessary contributions, or (c) changes its clearing membership status to that of a clearing member that is not a DFP.

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